

**3/2/78 [1]**

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Revised:  
3/1/78  
4:15 p.m.

THE PRESIDENT'S SCHEDULE  
Thursday - March 2, 1978

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8:15 Dr. Zbigniew Brzezinski - The Oval Office.

8:45 Mr. Frank Moore - The Oval Office.

9:00 Congressman Ed Jones. (Mr. Frank Moore).  
(15 min.) The Oval Office.

10:00 Mr. Jody Powell - The Oval Office.

11:30 Meeting with Delegation from Kenya.  
(15 min.) Dr. Zbigniew Brzezinski) - Cabinet Room.

11:50 Depart South Grounds via Motorcade  
en route the National Press Club Building.

12:00 Announcement/Civil Service Reorganization  
and Question and Answer Session - National  
Press Club.

12:55 Return to the White House.

2:30 Mr. Sam Brown, Director, ACTION.  
(15 min.) (Mr. Jack Watson) - The Oval Office.

2:45 Meeting with Mr. Paul Warnke et al.  
(30 min.) (Dr. Zbigniew Brzezinski) - Cabinet Room.

MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

C

2 March 1978

TO: THE PRESIDENT  
FROM: RICK HUTCHESON *R.H.*  
SUBJECT: Memos Not Submitted

1. JIM MCINTYRE sent you a copy of his letter to Senator Jennings Randolph, expressing the Administration's 'strong opposition' to S. 2557, the "pot hole bill."
2. BOB LIPSHUTZ sent you two notes:
  - the leading attorney for the Indians in the Maine case reports a very positive reaction among the Indians to the President's statements on the land claims matter;
  - the President's letter, and Miss Lillian's appearance, contributed greatly to the success of the Bobby Dodd Big Heart Dinner.



*The President*

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

March 2, 1978

Honorable Jennings Randolph  
United States Senate  
Washington, D.C. 20510

Dear Senator Randolph:

This letter is intended to clarify the Administration's position on S. 2557, the so-called "pot hole bill". S. 2557 would provide \$250 million for road repair and maintenance in response to the difficult winter weather conditions prevailing over large parts of the nation.

Important elements of the bill are as follows:

- o The \$250 million would be provided as contract authority from the highway trust fund.
- o The funds could be used for repair work on any paved road or on rails of any public transit system.
- o The damages must be attributable to the 1977-1978 winter, and the funds provided must be in addition to, not in substitution for, regular state road repair expenditures.
- o The funds must be obligated by the states by no later than June 15, 1978.
- o No state matching share is required.
- o The distribution of funds to states is to be made by the Department of Transportation, applying such factors as weather data, vehicle miles travelled, and road mileage.
- o No state would receive less than 0.5% or more than 7.0% of total funds.

Because of recent severe winters, there is little doubt that some states are having problems repairing and maintaining their roads. In that respect, we sympathize with proponents of the bill who are searching for ways to assist states in meeting legitimate road repair needs. However, for the reasons cited below, we believe that states should continue to handle their road repair problems without direct Federal assistance.

- o States have historically performed highway maintenance duties, usually with state employees rather than by contract. This bill would establish undesirable precedents of Federal involvement (and perhaps eventual take-over) in routine maintenance and payment of state employee salaries.
- o Likewise, the lack of any required state matching share would constitute an undesirable break in the Federal-state shared responsibility for highway construction.
- o It would be difficult, if not impossible, to ensure that the following conditions stipulated in the bill were met:
  - that only damages attributable to the 1977-1978 winter would be eligible for repair; and
  - that the funds provided are in addition to, and not in substitution for, regular state road maintenance expenditures.
- o A new, narrow highway funding category would be added at a time in which elimination of unneeded categories is being sought.
- o Funding of highway maintenance out of the trust fund would tend to supplant funding of other critically needed Federal-aid highway programs.
- o The allocation of a minimum 0.5% of total funds to any state and territory guarantees that no state or territory will receive less than \$1.25 million, whether or not it has sustained winter storm damage.

In conclusion, we do not believe that a case has been made for the provision of emergency Federal relief for a function which the states and local jurisdictions have performed well in the past and which we have every reason to believe

they will be able to continue to perform satisfactorily in the future. Additionally, S. 2557 would establish several very bad precedents for the Federal highway program--involvement in routine maintenance normally performed by state employees, and provision of 100% Federal funding. For these reasons the Administration strongly opposes the bill.

Sincerely,

A handwritten signature in cursive script, reading "Jim McIntyre".

James T. McIntyre, Jr.  
Acting Director

bcc: The President  
Secretary Brock Adams

THE WHITE HOUSE

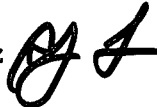
WASHINGTON

February 28, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

Bob Lipshutz



I had a phone call from the leading attorney for the Indian tribes in the Maine case, who also represents Indian tribes in matters all over the country.

He conveyed to me the very positive reaction to your Maine visit and your statements concerning the Indian land claims matter, which he has received from a number of people around the country.

He summarized it by saying that, for the first time in his memory, the Indians seem to have gained faith in the government. Apparently there has been a deep sense of mistrust that goes back many generations.

THE WHITE HOUSE  
WASHINGTON

To The President

F.Y.I.

Bob Fisker



# DeKalb County

556 North McDonough Street / Decatur, Georgia 30030 / 404-371-2881

LIANE LEVETAN  
DeKalb County Commissioner  
District 2

*Residence:*  
2250 Chrysler Terrace, N. E.  
Atlanta, Georgia 30345  
404 / 636-3704

February 27, 1978

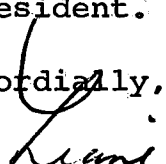
Dear Bob:

I am forwarding souvenir programs from the Bobby Dodd Big Heart Dinner. It was a tremendous success. Miss Lillian was her usual vivacious, humorous self, and just made the evening.

How are things in Washington? Resa will be up for six weeks April 17th working as an intern for Senator Herman Talmadge. Maybe she will get a chance to come by and see the Georgia folks at the White House again.

My best regards to you and Betty, and thank you again for your help in securing the cover letter from our President.

Cordially,

  
Liane Levetan  
Commissioner, District 2

LL/sc

Mr. Robert Lipshutz  
The White House  
Washington, D.C. 20500



## PROGRAM

### THE DAIS

#### First Row

Tom Butler  
Dr. Vernon S. Broyles  
Lt. Gov. Zell Miller  
Kim King  
Alice Dodd  
Bobby Dodd  
Lillian Carter  
Harry Davey  
Ludlow Porch  
Sen. Herman Talmadge  
Liane Levetan  
Buddy Fowlkes  
Charlie Brown  
Willis Huff  
Bill Brandon

#### Second Row

Jim Carlen  
Doug Weaver  
Bill Curry  
Shug Jordan  
Jesse Outlar  
Vince Dooley  
Maxie Baughan  
Bob Woodruff  
Tommy Nobis  
Charlie Justice  
Eddie LeBaron  
Joel Eaves  
Furman Bisher  
Benjamin Hudson  
Al Head

INVOCATION ..... Dr. Vernon S. Broyles

STAR SPANGLED BANNER ..... Hattie Jackson

DINNER

WELCOME..... Harry Davey

MASTER OF CEREMONIES — Ludlow Porch

SALUTE TO THE COACH ..... Members of the Dais

### SPECIAL PRESENTATION OF AWARDS

Shriners (Yaarab Temple)  
Georgia Youth Football Conference  
Civitan Award

Potentate Al Head  
President Bill Brandon  
Governor Pete Huff

SPECIAL PRESENTATION  
TO MRS. DODD

Jill Kuniansky

BIG HEART  
AWARD PRESENTATION

Lillian Carter

SONG: MY WAY

Dorothy Brown



February 14, 1978 — Dunfey's Royal Coach — Atlanta

PRESIDENT JIMMY CARTER  
CIVIL SERVICE REORGANIZATION  
NATIONAL PRESS CLUB  
WASHINGTON, D.C.  
MARCH 2, 1978, 12:00 NOON

PRES. Aukofer

DAY OF ANNOUNCEMENT  
APPT 2 EHRICHMAN'S ASST

BEFORE ?'s - STATEMENT - IMPORTANT SUBJECT

I CAME TO WASHINGTON WITH THE PROMISE -- AND THE  
OBLIGATION -- TO HELP REBUILD THE FAITH OF THE AMERICAN  
PEOPLE IN OUR GOVERNMENT.

WE WANT A GOVERNMENT THAT CAN BE TRUSTED, NOT  
FEARED.....THAT WILL BE EFFICIENT, NOT MIRED IN ITS OWN  
RED TAPE.....A GOVERNMENT THAT WILL RESPOND TO THE NEEDS  
OF AMERICAN CITIZENS AND NOT BE PREOCCUPIED WITH NEEDS  
OF ITS OWN.

TAXPAYERS WHO WORK HARD FOR THEIR MONEY WANT TO  
SEE IT WISELY SPENT.

WE ALL WANT A GOVERNMENT WORTHY OF CONFIDENCE  
AND RESPECT.

THAT IS WHAT REORGANIZATION . . .

THAT IS WHAT REORGANIZATION IS ALL ABOUT.

WE HAVE NO ILLUSIONS THAT THIS TASK WILL BE EASY.

OUR GOVERNMENT AND ITS BUREAUCRACY HAVE EVOLVED  
OVER MANY GENERATIONS AND THE WORK OF REFORM CANNOT BE  
COMPLETE IN A YEAR OR PERHAPS EVEN DURING MY SERVICE IN  
THE WHITE HOUSE.

BUT WE HAVE BEGUN.

*ALREADY*

WE HAVE ADOPTED ZERO-BASED BUDGETING.

WE HAVE CUT THE BURDEN OF PAPERWORK ON THE PUBLIC,  
AND EXCESSIVE GOVERNMENT REGULATION IS BEING REPLACED  
WITH FREE MARKET COMPETITION.

AT OSHA AND IN OTHER FEDERAL AGENCIES WE ARE  
DISCARDING OBSOLETE REGULATIONS AND REWRITING RULES IN  
PLAIN AND COMPREHENSIBLE ENGLISH.

WE HAVE CUT SIGNIFICANTLY THE NUMBER OF EMPLOYEES  
IN THE EXECUTIVE OFFICE OF THE PRESIDENT AND ABOLISHED  
HUNDREDS OF UNNEEDED ADVISORY COMMITTEES.

BUT ALL THAT IS NOT ENOUGH.

THE SINGLE MOST IMPORTANT STEP WE CAN TAKE IS  
A THOROUGHGOING REFORM OF THE CIVIL SERVICE SYSTEM.

CIVIL SERVICE REFORM WILL BE THE CENTERPIECE OF  
GOVERNMENT REORGANIZATION DURING MY TERM IN OFFICE.

I HAVE SEEN AT FIRST HAND THE FRUSTRATION AMONG  
THOSE WHO WORK WITHIN THE BUREAUCRACY.

NO ONE IS MORE CONCERNED AT THE INABILITY OF  
GOVERNMENT TO DELIVER ON ITS PROMISES THAN THE WORKER  
WHO IS TRYING TO DO A GOOD JOB.

MOST CIVIL SERVICE EMPLOYEES . . .



MOST CIVIL SERVICE EMPLOYEES PERFORM WITH SPIRIT  
AND INTEGRITY.

NEVERTHELESS, THERE IS STILL WIDESPREAD CRITICISM  
OF FEDERAL GOVERNMENT PERFORMANCE.

THE PUBLIC SUSPECTS THAT THERE ARE TOO MANY  
GOVERNMENT WORKERS, THAT THEY ARE UNDERWORKED, OVERPAID,  
AND INSULATED FROM THE CONSEQUENCES OF INCOMPETENCE.

SUCH SWEEPING CRITICISMS ARE UNFAIR TO DEDICATED  
FEDERAL WORKERS WHO ARE CONSCIENTIOUSLY TRYING TO DO  
THEIR BEST, BUT WE HAVE TO RECOGNIZE THAT THE ONLY WAY  
TO RESTORE PUBLIC CONFIDENCE IN THE VAST MAJORITY WHO  
WORK WELL IS TO DEAL EFFECTIVELY AND FIRMLY WITH THE  
FEW WHO DO NOT.



THE TWO COMPLAINTS MOST OFTEN HEARD AGAINST THE  
PRESENT SYSTEM ARE THAT FEDERAL EMPLOYEES HAVE TOO LITTLE  
PROTECTION AGAINST POLITICAL ABUSE -- AND TOO MUCH  
PROTECTION AGAINST LEGITIMATE ASSESSMENT OF PERFORMANCE  
AND SKILLS.

THESE CHARGES SOUND CONTRADICTORY, BUT BOTH OF  
THEM HAPPEN TO BE TRUE.

AND THE SYSTEM THAT PERPETUATES THEM NEEDS TO BE  
CHANGED.

FOR THE PAST 7 MONTHS, A TASK FORCE OF MORE THAN  
100 CAREER CIVIL SERVANTS HAS ANALYZED THE CIVIL SERVICE,  
EXPLORED ITS WEAKNESSES AND STRENGTHS AND SUGGESTED HOW  
IT CAN BE IMPROVED.

THEIR JUDGMENTS ARE REFLECTED IN THE MESSAGE  
I WILL SEND TO THE CONGRESS TODAY.

I WANT TO OUTLINE THESE PROPOSALS . . .

I WANT TO OUTLINE THESE PROPOSALS AND EXPLAIN  
THE REASONING BEHIND THEM.

THEY REPRESENT THE MOST SWEEPING REFORM OF THE  
CIVIL SERVICE SYSTEM SINCE IT WAS CREATED NEARLY 100  
YEARS AGO.

THE SIMPLE CONCEPT OF A "MERIT SYSTEM" HAS GROWN  
INTO A TANGLED WEB OF COMPLICATED RULES AND REGULATIONS.

MANAGERS ARE WEAKENED IN THEIR ABILITY TO REWARD  
THE BEST AND MOST TALENTED PEOPLE -- AND TO FIRE THOSE  
FEW WHO ARE UNWILLING TO WORK.

THE SAD FACT IS THAT IT IS EASIER TO PROMOTE AND  
TRANSFER INCOMPETENT EMPLOYEES THAN TO GET RID OF THEM.

IT MAY TAKE AS LONG AS THREE YEARS MERELY TO FIRE  
SOMEONE FOR JUST CAUSE, AND AT THE SAME TIME THE  
PROTECTION OF LEGITIMATE RIGHTS IS A COSTLY AND TIME-  
CONSUMING PROCESS FOR THE EMPLOYEE.

YOU CANNOT RUN A FARM THAT WAY....YOU CANNOT RUN  
A FACTORY THAT WAY....AND YOU CERTAINLY CANNOT RUN A  
GOVERNMENT THAT WAY.

WE HAVE LOST SIGHT OF THE ORIGINAL PURPOSE --  
WHICH WAS TO REWARD MERIT.

MORE THAN 99 PERCENT OF ALL FEDERAL EMPLOYEES  
GET A SO-CALLED "MERIT" RATING AND LAST YEAR, OUT OF  
ABOUT 2 MILLION EMPLOYEES, ONLY 226 PEOPLE LOST THEIR  
JOBS FOR INEFFICIENCY. (*~ 1/100 of 1%*)

SO MY FIRST PROPOSITION IS THIS: THERE IS NOT  
ENOUGH MERIT IN THE MERIT SYSTEM.

THERE IS INADEQUATE MOTIVATION BECAUSE WE HAVE  
TOO FEW REWARDS FOR EXCELLENCE AND TOO FEW PENALTIES  
FOR UNSATISFACTORY WORK.

WE MUST ENCOURAGE BETTER PERFORMANCE.....

WE MUST ENCOURAGE BETTER PERFORMANCE IN WAYS THAT  
ARE USED WIDELY AND EFFECTIVELY IN PRIVATE INDUSTRY.

TOP FEDERAL WORKERS ARE READY AND WILLING TO  
RESPOND TO THE RISKS AND REWARDS OF COMPETITIVE LIFE,  
AND PUBLIC SERVICE WILL BE HEALTHIER WHEN THEY HAVE THAT  
CHANCE.

WE MUST STRIKE A NEW BALANCE THAT PRESERVES  
THE MERIT PRINCIPLE WHILE GIVING MANAGERS THE INCENTIVE  
AND THE AUTHORITY TO MANAGE.

WE PROPOSE TO DO THIS, FIRST, BY CREATING A  
SENIOR EXECUTIVE SERVICE, WHOSE 9200 MEMBERS WILL BE  
AVAILABLE TO SERVE WHEREVER IN THE GOVERNMENT THEY ARE  
MOST NEEDED.

THEY WILL BE ELIGIBLE FOR ANNUAL BONUSES FOR  
SUPERIOR PERFORMANCE, AND CAN BE MOVED FROM THE  
SENIOR EXECUTIVE SERVICE BACK TO THEIR PREVIOUS CIVIL  
SERVICE STATUS FOR POOR PERFORMANCE.

I WILL ALSO ASK CONGRESS TO AUTHORIZE THE USE  
OF INCENTIVE PAY FOR THE 72,000 FEDERAL MANAGERS AND  
SUPERVISORS IN GRADES GS-13 THROUGH GS-15, WHICH IS A  
FAR MORE ATTRACTIVE AND SENSIBLE ACKNOWLEDGMENT OF MERIT  
THAN THE SILVER WATER CARAFES AND THICKER CARPETS THAT  
PASS FOR RECOGNITION TODAY.

THEY WILL NO LONGER RECEIVE AUTOMATIC "STEP"  
INCREASES IN PAY WITHOUT REGARD TO PERFORMANCE.

ANOTHER PROPOSAL WHICH WILL IMPROVE . . .

ANOTHER PROPOSAL WHICH WILL IMPROVE MANAGERIAL  
EXCELLENCE IS A SPEEDIER AND FAIRER DISCIPLINARY SYSTEM,  
WHICH WILL CREATE A CLIMATE IN WHICH MANAGERS MAY  
DISCHARGE NON-PERFORMING EMPLOYEES -- USING DUE PROCESS --  
WITH REASONABLE ASSURANCE THAT THEIR JUDGMENT, IF VALID,  
WILL PREVAIL.

AT THE SAME TIME, EMPLOYEES WILL RECEIVE A MORE  
RAPID HEARING FOR THEIR GRIEVANCES.

THE PROCEDURES THAT EXIST TO PROTECT EMPLOYEE  
RIGHTS ARE ABSOLUTELY ESSENTIAL.

BUT EMPLOYEE APPEALS MUST NOW GO THROUGH THE  
CIVIL SERVICE COMMISSION, WHICH HAS A BUILT-IN CONFLICT  
OF INTEREST BY SERVING SIMULTANEOUSLY AS RULE-MAKER,  
PROSECUTOR, JUDGE, AND EMPLOYEE ADVOCATE.

SO, MY SECOND PROPOSITION IS: EMPLOYEES STILL  
HAVE TOO LITTLE PROTECTION FOR THEIR RIGHTS.

I PROPOSE TO DIVIDE THE PRESENT CIVIL SERVICE  
COMMISSION INTO TWO BODIES -- AN OFFICE OF PERSONNEL  
MANAGEMENT TO IMPROVE THE PRODUCTIVITY AND PERFORMANCE  
OF FEDERAL WORKERS.....AND A MERIT PROTECTION BOARD  
TO STAND WATCH AGAINST MERIT ABUSES AND RESOLVE THE  
APPEALS BROUGHT BY EMPLOYEES.

I WILL ALSO PROPOSE AN OFFICE OF SPECIAL COUNSEL  
TO INVESTIGATE MERIT VIOLATIONS AND PROTECT "WHISTLEBLOWERS"  
WHO EXPOSE GROSS MANAGEMENT ERRORS AND ABUSES.

FINALLY, I PROPOSE THE CREATION . . .

FINALLY, I PROPOSE THE CREATION OF A FEDERAL  
LABOR RELATIONS AUTHORITY TO REMEDY UNFAIR LABOR PRACTICES  
WITHIN THE GOVERNMENT MUCH AS THE NATIONAL LABOR RELATIONS  
BOARD DOES IN PRIVATE INDUSTRY.

IN ADDITION, WE WILL CONTINUE TO WORK WITH CONGRESS  
AND FEDERAL EMPLOYEES TO DEVELOP LEGISLATION WHICH, WHILE  
RECOGNIZING THE SPECIAL REQUIREMENTS OF THE FEDERAL  
GOVERNMENT, WILL IMPROVE FEDERAL LABOR PRACTICES.

ONE OTHER SERIOUS DEFECT REMAINS.

THAT IS THE NETWORK OF RULES GOVERNING HIRING,  
STAFFING, AND TENURE.

WE SHOULD GIVE EACH AGENCY MORE CONTROL OVER ITS  
OWN HIRING, RATHER THAN THE CIVIL SERVICE COMMISSION  
WHICH NOW MAY TAKE AS LONG AS SIX TO EIGHT MONTHS TO  
FILL IMPORTANT POSITIONS.



CURRENT RULES OFTEN IMPEDE THE HIRING OF QUALIFIED  
WOMEN, MINORITIES AND THE HANDICAPPED BY GIVING VETERANS  
A LIFETIME ADVANTAGE UNDER CIVIL SERVICE LAWS --  
FAR BEYOND THE BENEFITS PROVIDED UNDER OTHER VETERANS  
PROGRAMS WHICH ARE DESIGNED TO EASE THE READJUSTMENT  
FROM MILITARY TO CIVILIAN LIFE.

THEREFORE, WE PROPOSE TO REDUCE THE PREFERENTIAL  
ADVANTAGE GIVEN TO NON-DISABLED VETERANS TO A 10-YEAR  
PERIOD.....AND TO END THIS PREFERENCE ALTOGETHER FOR  
SENIOR MILITARY OFFICERS WHO RETIRE WITH PENSION BENEFITS  
AFTER A FULL MILITARY CAREER.

AT THE SAME TIME, WE WILL STRENGTHEN PROVISIONS  
TO ENSURE THAT DISABLED VETERANS AND THOSE WHO SERVED  
DURING AND SINCE VIETNAM ARE FULLY PROTECTED UNDER OUR  
CIVIL SERVICE LAWS.

LET ME BE STRAIGHTFORWARD ABOUT . . .

LET ME BE STRAIGHTFORWARD ABOUT THE IMPLICATIONS  
OF ALL THIS.

OUT PROPOSALS WILL MEAN LESS JOB SECURITY<sup>ONLY</sup> FOR  
INCOMPETENT FEDERAL EMPLOYEES, BUT CONSCIENTIOUS  
CIVIL SERVANTS WILL BENEFIT FROM A CHANGE THAT RECOGNIZES  
AND REWARDS GOOD PERFORMANCE.

OUR PROPOSALS DEAL WITH THE MAJOR CHANGES THAT  
MUST NOW BE MADE.

BY ENACTING THEM WE WILL MAKE EMPLOYMENT IN THE  
CIVIL SERVICE MORE CHALLENGING, MORE PRODUCTIVE, AND  
A MORE PROSPEROUS AND GRATIFYING CAREER.

BUT THE GREATEST BENEFICIARIES WILL BE THE  
AMERICAN PEOPLE, WHO CAN EXPECT TO SEE A MORE COMPETENT  
AND EFFICIENT AND RESPONSIVE GOVERNMENT -- ONE THAT IS  
WORTHY OF THE PEOPLE IT WAS CREATED TO SERVE.

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Draft, -- 2/28/78(4)

No COPIES  
Comments to me by  
3:00 p.m. Wed. -  
Needs toughening up. a back  
a) bureaucracy b) malingerers

I came to Washington with the promise -- and  
the obligation -- help rebuild the faith of the  
American people in our government. We want a govern-  
ment that can be trusted, not feared; that will be  
efficient, not mired in its own red tape; a government  
that will respond to the needs of American citizens,  
*promptly, courteously and effectively.*  
[not be preoccupied with needs of its own.]

[The American people want government employees  
to care about the services which tax dollars are buying,  
and to be courteous and competent.]

We all want a government worthy of confidence  
and respect.

This is what government reorganization is about.  
It is the way our government can earn its way back into  
the good graces of our people.

[I came to Washington with no illusions that this task would be easy. Our government and bureaucracy is the product of many generations, and not in a single generation -- certainly not in a year or two will the work of reforming it be complete.]

But I am encouraged by what has already been done. We have adopted zero-based budgeting and have begun to cut the burden of paperwork on the public, to substitute free market competition for excessive government regulation, to reform the administration of OSHA and the Equal Employment Opportunity Commission, and we have begun to discard obsolete regulations and to rewrite existing rules into plain and comprehensible English. We have streamlined the Office of the President, disposed of hundreds of superfluous advisory committees, and created a new Department of Energy. We have

adopted strong ethical codes to ensure that Federal officials have no loyalties except loyalty to the public interest.

We must now tackle the fundamentals of government performance. The single most important step we can take is a thoroughgoing reform of the Civil Service. Civil Service reform will be the centerpiece of reorganization efforts this year. It is impossible to make government work better unless we establish conditions under which government employees can work better.

Since coming to office, I have seen at first hand the frustration among those who work within the bureaucracy. No one is more concerned at the inability of government to deliver on its promises than the worker who is trying to do a good job.

I have learned that most Civil Service employees perform with spirit and integrity. Nevertheless, there is still considerable criticism of Federal government performance. The public suspects that there are too many government workers, that they are underworked, overpaid, and insulated from the consequences of incompetence. Such sweeping criticisms are unfair to dedicated civil servants who are conscientiously trying to do their best, but we have to recognize that they contain elements of truth.

My own programs -- and those of other Presidents -- depend in large measure on the efforts and support of Civil Service employees. These employees are my associates -- my partners -- my fellow workers. Too many of them are working under conditions that fail to motivate or permit their best performance.



The two criticisms most often heard against the present system are that Federal employees have too little protection against political abuse -- and too much protection against legitimate assessments of performance and skill. These criticisms sound contradictory, but both of them happen to be true. And the system that perpetuates them needs to be changed.

For the past 7 months, a task force of more than 100 career civil servants, business leaders and scholars has analyzed the Civil Service, explored its weaknesses and strengths and suggested how it can be improved. Their judgments are reflected in the Message I will send to the Congress within the next few days. Today I want to tell you what these proposals are and explain the reasoning behind them.

*what began many years ago as*  
First, the simple concept of a "merit system"

has grown into a tangled web of complicated rules and regulations. Federal managers are weakened in their ability to motivate and reward the best and most talented people -- and to fire those few who cheat and are unwilling to work.

It is easier to promote or transfer incompetent employees than to get rid of them. It may take as long as three years merely to fire someone for just cause, and the protection of legitimate rights is a costly and time-consuming process for the employee. The complaint process has numerous appeals bodies and as many as seven different opportunities for hearings.

In our attempt to avoid political abuse in the Civil Service, we have lost sight of the original purpose -- which was to reward merit. More than

99 percent of all Federal employees get such a "merit" rating and the pay raise that goes with it. In Fiscal 1976, out of about 2 million Federal employees, only 226 people lost their jobs for inefficiency.

So my first proposition is this: Where Civil Service jobs are concerned, the spoils system is no longer our major concern; the main problem is the absence of motivation which comes from rewards for superior work and penalties for unsatisfactory performance. The rigid controls and complicated regulations we have strung around ourselves have become a serious obstacle to good government.

Our ability to change and revitalize our government programs is directly proportional to our ability to acquire, develop, assign and reward top-quality employees.

We need to motivate better performance in ways that are used effectively in private industry and which underlie the capacity and power of America. Top quality Federal workers are ready and willing to respond to the risks and rewards of competitive life, and public service will be healthier when they have that chance.

We must strike a new balance that preserves the merit principle while giving managers the incentive and the authority to manage.

We propose to do this, first, by creating a Senior Executive Service comprising the 8400 senior executives whose duties are managerial and who are now classified from GS-16 up to Executive Level IV or its equivalent. They can then be assigned anywhere

in the government where they are most needed; they will be eligible for annual bonuses for superior performance; and they can be removed from the Senior Executive Service back to their regular Civil Service status for poor performance.

I will also ask Congress to authorize the use of incentive pay for the 72,000 Federal managers and supervisors in grades GS-13 through GS-15. Those who perform in an unusually productive fashion will be eligible for annual bonuses, which are a far more attractive and sensible acknowledgment of merit than the silver water carafes and thicker carpets that pass for recognition today.

Another proposal which will improve managerial excellence is a speedier disciplinary system. Under the present system, supervisors who care about competence and performance are hesitant to challenge employees who will not do their work. This red tape has the effect of denying justice, not promoting it. A system of cimplified, streamlined appeals will create a climate in which managers may discharge non-performing employees -- using due process -- with resonable assurance that their judgment, if valid, will prevail.

\* \* \*

The procedures that exist to protect employee rights are not just a managerial tool; they are a way to guard against arbitrary and capricious harassment of employees. And that is absolutely essential. But

employee appeals must now go through the Civil Service Commission, which serves simultaneously as rulemaker, prosecutor, judge, and employee advocate.

So, my second proposition is: Employees still have too little protection for their most important rights. It is time to establish new safeguards against political abuse.

We propose to do this, first, by dividing the present Civil Service Commission into two bodies -- an Office of Personnel Management and an independent Merit Protection Board. The Protection Board's three members will be bipartisan, appointed to seven-year terms, and will be removable only for cause. This will establish for the first time a truly separate, impartial, one-level appeals board to protect the merit principle.

By separating these functions of the present Civil Service Commission, the new Office of Personnel Management can act to improve the productivity and performance of Federal workers, while the Merit Protection Board will stand watch against merit abuses and resolve the appeals brought by employees.

I will also propose an Office of Special Counsel, charged with the duty of investigating merit violations and protecting "whistleblowers" who expose gross management errors and abuses.

\* \* \*

If we can improve managerial efficiency and employee protection, we will have gone a long way toward correcting the faults of the present Civil Service



system. But one other serious defect remains. That is the network of rules governing hiring and tenure.

Some of these rules are traceable to the lifetime entitlement accorded to veterans in Federal employment. Let me be clear -- this nation has a continuing debt of gratitude to those who have served in time of war. To those veterans who are disabled, our debt is unending -- regardless of how long ago the disability was incurred. To those Viet Nam era veterans, whether disabled or not, we -- as a nation -- have a long way to go before we will have adequately said -- "thank you."

But the general preferences accorded to veterans have become a tangled web that has lost its original purpose to aid in readjustment from military service to civilian life.

Because of the broad preference they enjoy under current law, veterans hold nearly half of all Federal jobs, even though they account for just 22 percent of the country's total workforce. Preference for veterans puts other groups, like women and the congenitally handicapped, at a severe disadvantage.

So, my third proposition is that Federal hiring and tenure rules now give an unjustifiable edge to veterans and put unnecessary barriers in the way of fair and competitive employment programs. The veterans preference should exist primarily to provide readjustment assistance to any disabled veteran and to all veterans of the Viet Nam conflict.

I am asking the Congress, therefore, to cut the normal veterans preference to a period of ten years following discharge, and to end it altogether for senior

*There is no*

military officers -- field grade and general rank --  
who retire after a full military career. For veterans  
who have obtained and are secure in Federal jobs, I  
propose to limit the absolute right to "bump" qualified  
non-veterans.

I am also proposing to abolish the so-called  
"rule of three," which requires an agency to choose  
from among the three job candidates with the highest  
total test scores. If agencies can choose from among  
more top applicants, they can give consideration to  
personal qualities of excellence that often cannot be  
measured on an examination, and increase the possibility  
of hiring those who have not been given such opportunity  
in the past.

I realize the proposals affecting veterans will  
be controversial. But fairness consists in giving

preference to the disabled and in easing the transition to civilian life for people who have served our country, not in awarding a lifetime privilege to the detriment of their fellow citizens. The proposals I will submit to Congress make that distinction, focussing the preference where it is truly needed.

These Civil Service reforms are the heart of our government reorganization effort. The three objectives, as I have outlined them here today, are: giving executives the incentive and authority to manage; rewarding superior performance and increasing employees' protection against abuses of the merit principle; and promoting fairness and opportunity in hiring practices.

The structural and legislative changes we feel will best accomplish this are: the creation of a

Senior Executive Service; splitting the Civil Service Commission into an Office of Personnel Management and a Merit Protection Board; instituting incentive pay; simplifying the appeals process; modifying the veterans preference; and getting rid of the "rule of three."

Let me be straightforward about the implications of all this.

Our proposals will mean less job security for incompetent Federal employees, but we feel that conscientious civil servants will welcome a change that recognizes good performance and rewards it.

Our proposals will mean less of an edge for some veterans, but will continue preferences for Viet Nam and more recent service and for all disabled veterans.

Our proposals will tend to induce civil servants to cooperate with one another in supporting the laws and the policies of the United States government. This is not "political interference," and it is perfectly proper. The essence of democratic politics is for government to respond to the will of the people.

\* \* \*

Our proposals do not deal with everything in the Civil Service that needs reforming, but they do deal with the major changes that should now be made. We have the opportunity, by enacting them, to make employment in the Civil Service more~~ch~~allenging, more productive, and a more prosperous and gratifying career.

The greater beneficiaries will be the American people, who can expect to see a more competent and

efficient and responsive government -- one that is  
worthy of the people it was created to serve.

#

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#

# CIVIL SERVICE SPEECH

When I came to Washington I ~~came~~ with the promise -- and the obligation -- to help rebuild the faith of the American people in <sup>our</sup> ~~their~~ government. <sup>We want</sup> ~~They wanted~~ a government that <sup>can</sup> ~~could~~ be trusted, not feared; that <sup>will</sup> ~~would~~ be efficient, not mired in its own red tape; <sup>a government will</sup> ~~that would~~ respond to <sup>the</sup> ~~their~~ needs, <sup>of American citizens,</sup> not be preoccupied with needs of its own.

<sup>We all want</sup> ~~They wanted~~ a government worthy of <sup>Confidence and</sup> ~~respect~~. <sup>employees</sup> ~~one that~~ The American people want ~~their~~ government <sup>to care about</sup> the services <sup>and which</sup> ~~their~~ tax dollars are buying, <sup>we</sup> ~~They want a government~~ that <sup>and to be</sup> ~~is~~ courteous and competent, <sup>which respects the each citizen who reads</sup> ~~and in command of itself.~~ This <sup>the service and</sup> ~~is the~~ is what government reorganization is about. It is the way our government can earn its way back <sup>into</sup> ~~to~~ the good graces of our people.

<sup>to Washington</sup> I came <sup>Government bureaucracy</sup> ~~with~~ no illusions that this task would be easy. Our ~~system~~ is the product of many generations, and not in a single generation -- certainly not in a year or two ~~or four~~ -- will the work of reforming it be complete.

But I am encouraged by what has already been done. We <sup>have</sup> ~~and~~ <sup>and</sup> ~~have~~ begun to cut the burden of paperwork on the public, <sup>and</sup> ~~to~~ <sup>adopted</sup> ~~adopted~~ zero-based budgeting, to substitute free market competition for <sup>excessive</sup> government regulation, ~~where the interests of consumers would be served.~~ ~~We have begun~~ to reform the administration of OSHA and the Equal Employment Opportunity Commission; <sup>and</sup> ~~we~~ have begun to discard obsolete regulations and to rewrite existing rules into plain and comprehensible English. We have streamlined the Office of the President, disposed of hundreds of superfluous advisory



committees, and created a <sup>new</sup> Department of Energy. We have adopted strong ethical codes to ensure that Federal officials have no loyalties except loyalty to the public interest.

We must now tackle the fundamentals of government performance. The single most important step we can take is a thorough-going reform of the Civil Service. ~~I intend to make~~ Civil Service reform <sup>will be</sup> the centerpiece of ~~my~~ reorganization efforts this year. It is impossible to make government work better unless we establish conditions under which government employees can work better.

Since coming to office, I have seen <sup>at</sup> first hand the frustration among those who work within the bureaucracy. No one is more concerned at the inability of government to deliver on its promises than the worker who is trying to do <sup>a good</sup> his job, ~~right~~. <sup>I have learned that most</sup> Many of the people I turn to in the Civil Service <sup>employees</sup> perform with spirit and integrity. Nevertheless, there <sup>is still</sup> ~~has been~~ considerable criticism of Federal <sup>government performance.</sup> ~~employees, in this past year.~~ The public suspects that there are too many government workers, that they are underworked, overpaid, and insulated from the consequences of incompetence. Such ~~a~~ sweeping criticism <sup>are</sup> ~~is~~ unfair to dedicated civil servants who are conscientiously trying to do their best, but we have to recognize that <sup>they</sup> ~~it~~ contains <sup>an</sup> ~~a considerable~~ elements of truth.

<sup>own</sup> My <sup>own</sup> programs -- and those of other Presidents -- depend in large measure on the efforts and support of Civil Service employees. These employees are my associates <sup>-- my partners --</sup> ~~my~~ fellow workers. Too many of them are working under conditions that fail to motivate <sup>or permit</sup> their best performance.

The two criticisms most often heard against the present system are that Federal employees have too little protection against political abuse -- and ~~far~~ too much protection against legitimate <sup>assessments of</sup> ~~judgments about~~ performance and skill. These criticisms sound contradictory, but both of them happen to be true. And the system that perpetuates them needs to be changed.

For the past 7 months, a task force of more than 100 career civil servants, business leaders, and scholars has analyzed the Civil Service, explored its weaknesses and strengths and suggested <sup>how it</sup> ~~ways it~~ can be improved. Their judgments are reflected in the Message I will send to the Congress, <sup>within the next few days.</sup> ~~later this week.~~ Today I want to tell you what <sup>these</sup> ~~my~~ proposals are and explain the reasoning behind them.

First, the simple concept of a "merit system" has grown into a tangled web of complicated rules and regulations. Federal managers are weakened in their ability to motivate <sup>and reward</sup> the best and most talented people -- and to fire those <sup>few who cheat and are</sup> ~~unwilling to work.~~

It is easier to promote or transfer incompetent employees than to get rid of them. It may take as long as three years <sup>for just cause, and the protection of legitimate rights is a</sup> merely to fire someone. The complaint process has numerous <sup>costly and</sup> ~~different~~ appeals bodies and as many as seven <sup>time-consuming</sup> opportunities for hearings. <sup>process for</sup> ~~[Federal employees have become "headless nails," virtually impossible to remove once they are in.]~~ <sup>the employee.</sup>

In our attempt to avoid political abuse <sup>in the Civil Service,</sup> we have lost sight of the original purpose -- which was to reward merit. More than 99 per cent of all Federal employees get <sup>such</sup> a <sup>"merit"</sup> ~~satisfactory~~ rating.

and the pay raise that <sup>goes</sup> comes with it. In Fiscal 1976, <sup>about 2 million federal</sup> <sup>out of</sup> only 226 employees, people lost their jobs for inefficiency.

So, my first proposition is this: Where Civil Service jobs are concerned, the spoils system is no longer <sup>our major concern</sup> the main problem; ~~but~~ the main problem is the absence of <sup>motivation which comes from</sup> rewards for <sup>superior work</sup> excellence and penalties for <sup>unsatisfactory</sup> performance. The rigid controls <sup>and complicated regulations</sup> we have strung around ourselves have become <sup>a serious</sup> an obstacle to good government.

Our ability to change and revitalize our government programs is directly proportional to our ability to acquire, develop, <sup>assign</sup> <sup>move</sup> and reward top-quality <sup>employees</sup> executives. We need to ~~look at the ways to~~ motivate better performance <sup>in ways</sup> that ~~have been~~ <sup>are</sup> effectively used in private industry and <sup>which</sup> underlie the capacity and power of America. <sup>Top quality</sup> I believe federal workers are ready and willing to respond to the risks and rewards of competitive life, and public service will be healthier when they have that chance.

We must strike a new balance that preserves the merit principle while giving managers the incentive and the authority to manage.

We propose to do this, first, by creating a Senior  
> EXECUTIVE  
Management Service comprising the 8400 senior executives whose duties are managerial and who are now classified from GS-16 up to Executive Level IV or its equivalent. They <sup>can then</sup> could be assigned anywhere in the government <sup>where</sup> <sup>are most</sup> they were needed; they <sup>will</sup> would be eligible for annual bonuses for superior performance; and they <sup>can</sup> could be removed from the SES <sup>back to their regular civil service status</sup> for poor performance. <sup>↑</sup>  
~~without appeal rights.~~ <sup>spell out</sup>

I will also ask Congress to authorize the use of incentive pay for the 72,000 Federal managers and supervisors in grades GS-13 through GS-15. Those who perform in an unusually productive fashion <sup>will</sup> ~~would~~ be eligible for annual bonuses, which are a far more attractive and sensible acknowledgment of merit than the silver water carafes and thicker carpets that pass for recognition today.

Another <sup>proposal to which will</sup> ~~measure I will propose to~~ improve managerial excellence <sup>is</sup> a speedier disciplinary system. Under the present system, supervisors who care about competence and performance are hesitant to challenge employees who <sup>will</sup> ~~do~~ not do their work. <sup>This</sup> ~~The~~ red tape has the effect of denying justice, not promoting it. ~~We want to~~ create a climate in which managers may discharge non-performing employees -- using due process -- with reasonable assurance that their judgment, if valid, will prevail. A system of simplified, streamlined appeals will ~~do that~~.

\* \* \*

The procedures that exist to protect employee rights are not just a managerial tool; they are a way to guard against arbitrary and capricious harassment of employees. And that is absolutely essential. But employee appeals must now go through the Civil Service Commission, which serves simultaneously as rulemaker, prosecutor, judge, and employee advocate.

So: my second proposition is: Employees still have too little protection for their most important rights. It is time

to establish new safeguards against political abuse.

We propose to do this, first, by dividing the present Civil Service Commission into two bodies -- an Office of Personnel Management and an independent Merit Protection Board. <sup>Protection</sup> The Board's three members <sup>will</sup> ~~would~~ be bipartisan, ~~they would be~~ appointed to seven year terms, and <sup>will</sup> ~~they would~~ be removable only for cause. <sup>This will</sup> ~~The object would be to~~ establish, for the first time, a truly separate, impartial, one-level appeals board to protect the merit principle.

I will also propose an Office of Special Counsel, charged with the duty of investigating merit violations and protecting "whistleblowers" who expose <sup>gross</sup> ~~management~~ <sup>errors and</sup> ~~abuses~~.

By <sup>separating these</sup> ~~severing~~ the functions of the present Civil Service Commission ~~this way~~, the new Office of Personnel Management <sup>can</sup> ~~could~~ act as <sup>to improve</sup> ~~the President's personnel management arm in improving~~ the productivity and performance of Federal workers, while the Merit Protection Board <sup>can will</sup> ~~could~~ stand watch against merit abuses and resolve the appeals brought by employees.

\* \* \*

If we can improve managerial efficiency and improve employee protection, we will have gone a long way toward correcting the faults of the present Civil Service system. But one other serious defect remains. That is the network of rules governing hiring and tenure.

Some of these rules are traceable to the lifetime entitlement accorded to veterans in Federal employment. Let me be clear -- this nation has a continuing debt of gratitude to those

what  
vets?

who have served in time of war. To those veterans who are disabled, our debt is unending -- regardless of how long ago the disability was incurred. To those Viet Nam era veterans, whether disabled or not, we -- as a nation -- have a long way to go before we will have adequately said -- "thank you."

But the general preferences accorded to veterans have become a tangled web that has lost its original purpose to aid in the readjustment to civilian life.

*from military service*  
Because of the <sup>broad</sup> preference they enjoy under current law, veterans hold nearly half of all Federal jobs, even though they account for just 22 per cent of the country's total workforce.

~~[In some areas there are so many veterans at the head of the line that no one else can hope to get a Federal job.]~~ Preference for veterans puts other groups, like women and the congenitally handicapped, at a severe disadvantage.

So <sup>now</sup>, my third proposition is that ~~the~~ Federal hiring and tenure rules give an unjustifiable edge to veterans and put unnecessary barriers in the way of <sup>fair and competitive employment</sup> ~~affirmative action~~ programs. The veterans preference should exist primarily to provide readjustment assistance to any disabled veteran and to all veterans of the Viet Nam conflict.

I am asking the Congress, therefore, to cut the normal veterans preference to a period of ten years following discharge, and to end it altogether for senior military officers -- field grade and general rank -- who retire after a full military career. For veterans who have obtained and are secure in Federal jobs, I propose to limit the absolute right to "bump" qualified non-veterans. ~~None of these changes would affect disabled veterans.~~

I am also proposing to abolish the so-called "rule of three," which requires an agency to choose from among the three job candidates with the highest total <sup>test</sup> scores. If agencies can choose from among ~~[seven or]~~ more top applicants, they can give ~~more~~ consideration to ~~unique~~ personal qualities of excellence that often cannot be measured on an examination, and increase the ~~possibility~~ <sup>likelihood</sup> of hiring those ~~whom our affirmative action programs are designed to benefit.~~ <sup>who have not been given such opportunity in the past.</sup>

I realize the proposals affecting veterans will be controversial. But fairness consists <sup>in giving preference to the disabled and</sup> in easing the transition to civilian life for people who have served <sup>our</sup> ~~their~~ country, not in awarding a lifetime privilege to the detriment of their fellow citizens. The proposals I will submit to Congress make that distinction, <sup>focussing</sup> ~~and they focus~~ the preference where it is truly needed.

These Civil Service reforms are the heart of <sup>our</sup> ~~my~~ government reorganization effort. <sup>The</sup> ~~Our~~ three objectives, as I have outlined them here today, are: giving <sup>executives</sup> ~~managers~~ the incentive and authority <sup>and rewarding superior performance and</sup> to manage <sup>and increasing employees' protection against abuses of the</sup> ~~merit principle; and promoting~~ <sup>fairness and opportunity</sup> ~~equity and affirmative action~~ in hiring practices.

The structural and legislative changes we feel will best accomplish this ~~to summarize~~ are: the creation of a Senior Executive Service; splitting the Civil Service Commission into an Office of Personnel Management and a Merit Protection Board; instituting incentive pay; simplifying the appeals process; modifying the veterans preference; and getting rid of the "rule of three."

Let me be straightforward about the implications of all this.

Our proposals will mean less ~~absolute~~ job security for ~~incompetent~~ Federal employees, but we feel that conscientious civil servants will welcome a change that recognizes good performance and rewards it.

Our proposals will mean less of an edge for <sup>some</sup> veterans, but will ~~continue preferences for Viet Nam~~ service and for all disabled veterans. But this is fair. ~~and more recent~~

Our proposals will tend to induce civil servants to cooperate with ~~one another in our supporting the laws and the policies of the~~ the policies and programs of whatever administration is ~~United States government~~ in power. ~~But~~ This is not "political interference," and it is perfectly proper. The ~~whole~~ essence of democratic politics is for government to respond to the will of the people.

\* \* \*

Our proposals do not deal with everything in the Civil Service that needs reforming,

But they do deal with the major changes that should <sup>now</sup> be made. ~~And~~ We have the opportunity, by enacting them, to make <sup>employment in</sup> the Civil Service more <sup>challenging, more</sup> accountable, more productive, <sup>and a</sup> more prosperous and gratifying career. ~~competent, and a better place in which to work.~~

<sup>greater</sup> The ~~true~~ beneficiaries of ~~that~~ will be the American people, who can expect to see a more competent and efficient and responsive government - one that is worthy of the people it was created to serve.

# # #



1141

THE WHITE HOUSE  
WASHINGTON

March 2, 1978

Jody Powell

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hatcheson

cc: Jim Fallows  
Tim Kraft  
Fran Voorde

RE: RADIO-TELEVISION CORRESPONDENTS  
ASSOCIATION DINNER

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
/		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
/	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

/	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
/	STRAUSS
	VOORDE
	WARREN

THE PRESIDENT HAS SEEN,

THE WHITE HOUSE

WASHINGTON

March 1, 1978

*Jody*

MEMORANDUM FOR THE PRESIDENT

FROM:

Jody Powell *JP*

RE : Radio-Television Correspondents Association Dinner

We have, without making any commitments, discussed the schedule further with the officers of the Radio-Television Correspondents Association.

You could arrive at 9:30 p.m., the point where they will have just finished eating dinner, and take your seat at the head table.

Mark Russell will take the stage, joke briefly, and it will then go to some skits by members of the Association. The skits will largely center on the White House staff members and yourself.

This is to conclude at 9:50 p.m.

At this point, I suggest that you:

1. Thank them, say that you would rather not dignify the proceedings with a comment (or similar one-liner) and depart.

OR

2. Deliver ~~fuller~~ remarks, ~~though still~~ fairly brief, and then leave.

OR

3. Say nothing and stay for the remaining 15 minutes of the program, which is the installation of new officers.

You would not have to decide on which of the three options to take until the day of the dinner.

*my preference  
if  
quality is  
good*

1165

THE WHITE HOUSE  
WASHINGTON

March 2, 1978

Frank Moore

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

RE: REQUEST TO CALL SEN. KENNEDY

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

March 2, 1978

*Frank -  
did not  
call -  
J*

MEMORANDUM FOR THE PRESIDENT

FROM:

FRANK MOORE *F.M./BR*

SUBJECT:

REQUEST TO CALL SEN. KENNEDY

Senator Ted Kennedy, the AFL-CIO, and the UAW have gotten together on their national health insurance plan; they finished in a big meeting last night.

Senator Kennedy called me this morning and asked if he could see you. I suggested that he and labor should meet with Stu Eizenstat and Peter Bourne to discuss the plan with them, and that he could probably bring you up-to-date by telephone rather than a meeting at this time. Senator Kennedy agreed. Therefore, I request you call Senator Kennedy today or tonight for a brief telephone conversation on national health insurance, and that you steer clear of a commitment on timing.

*Kennedy - wants to meet on ~~27~~ 3/20  
i Doug Fraser = upset re specifics, but  
better when explained = Hearings July-Aug.*

*J*

THE WHITE HOUSE  
WASHINGTON

March 2, 1978

Stu Eizenstat  
Frank Moore  
Jack Watson

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

RE: NEW YORK CITY

THE WHITE HOUSE

WASHINGTON

2 March 1978

MEMORANDUM FOR

THE HONORABLE W. MICHAEL BLUMENTHAL  
Secretary of Treasury

Re: Your Memo Entitled,  
"New York City"

The President reviewed your memorandum of February 28 on the above subject and stated: "I called Koch - Moynihan - Carey - All ok."

Rick Hutcheson  
Staff Secretary



THE PRESIDENT HAS SEEN.

PRIORITY

THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

February 28, 1978

*I called  
Koch - Moynihan -  
Carey - All  
ok  
JC*

MEMORANDUM FOR THE PRESIDENT

Subject: New York City

On March 2, I will testify regarding future federal lending assistance to New York City. The current legislation, under which Treasury is authorized to provide \$2.3 billion of annual short term loans, expires on June 30.

Our detailed analysis indicates that all of the City's borrowing needs can be satisfied locally, provided that some federal "backstop" or "safety net" covers a portion of its long term financing. Without it, the risks of insolvency are too high.

Accordingly, I recommend legislation authorizing a stand-by \$2 billion "limited guarantee" of City bonds. It probably would only cover bonds sold to the local pension funds. Furthermore, it only would be provided if this \$2 billion of City bonds could not be sold to the public. My judgment is that this type of "backstop" may reassure those public markets sufficiently so that the guarantee won't actually be used.

We are asking that these guarantees extend for 15 years, but would hope to negotiate a shorter period with Congress. If all works well, the guarantee authority would extend for only 7-10 years.

These legislative recommendations should include the following conditions, which are difficult but can be met.

- That New York adopt a four year budget plan which results in true balance.
- That the State of New York provide \$200-350 million of annual budget assistance to the City over these four years.
- That a local "budget control board" be established to assure that this budget plan works.



- That the City pension funds and local banks agree to make major new lending commitments, on an unguaranteed basis, to the City.
- That Treasury obtain \$2 billion of stand-by long term lending commitments from pension funds, and other local lenders, in exchange for the stand-by guarantee.
- That Congress pass the special legislation which is necessary to permit any new pension fund loans.
- That New York obtain sufficient loan commitments from local sources to assure that its short term borrowing needs also are met.



W. Michael Blumenthal



THE WHITE HOUSE  
WASHINGTON

3/1/78  
3:30 PM

Mr. President:

Stu gave Jack a copy of the DPS comment on Blumenthal's memo. Jack comments:

- o he strongly endorses Stu's suggestion that the President call Carey and Koch. Jack suggests that the President also call Senator Moynihan (in addition to Blumenthal's call) and Congressman Jim Delaney (Dean of the New York delegation). Moynihan will be one of the most visible spokesmen on this issue.
- o Jack endorses Stu's comment that better White House-Treasury coordination is needed, and recommends that the President instruct Blumenthal to work closely with Watson, Jordan and Eizenstat on this issue in the future.

Jack points out that this decision will have a greater political impact on New York than any other action the Administration will take. Jack, Stu and Hamilton met with Blumenthal to discuss the political sensitivity of this issue. It is unfortunate that Treasury's memo arrived so late, and that any last minute calls by the President will have to follow the story in today's New York Times.

--- Rick

THE WHITE HOUSE  
WASHINGTON

March 1, 1978

*Seasonal financing  
Money "up front"*

MEMORANDUM FOR THE PRESIDENT

FROM:

STU EIZENSTAT  
ORIN KRAMER

*Stu*

SUBJECT:

Secretary Blumenthal's Testimony  
on New York City Finances

Attached is Treasury's outline of Secretary Blumenthal's New York City testimony, which was received yesterday afternoon and is to be delivered tomorrow. Secretary Blumenthal also briefed the relevant Congressional leadership on the elements of the package yesterday afternoon, before you approved it, and thus the basic components are on page one of today's New York papers. This is most unfortunate, since Treasury has agreed to modify its testimony in ways favorable to the City, but these modifications were not fully reflected in the early stories and in the reactions of New York officials unfamiliar with the positive changes that have been made over the past few days.

In light of the political and substantive risks and importance of this package, we have presented a more detailed description and analysis than is provided in the attached Treasury memorandum.

Treasury Proposal

1. Congress would be requested to authorize a "stand-by" \$2 billion guarantee of MAC or City bonds, which would probably only cover bonds sold to the city/state pension funds. The guarantee would be triggered if this \$2 billion of MAC or City debt could not be sold to the public, in which case by pre-arrangement such bonds would be absorbed by the city/state pension systems--i.e., the City would be required to satisfy a "best effort" test prior to resort to the guarantee. The guarantees would be authorized to extend for 15 years, although we might end up negotiating a shorter guarantee period in the 7-10 year range with either the Congress or the local New York parties. The precise form and coverage of the guarantees would be determined prior to June 30, 1978.

2. Federal legislation would be recommended to permit the city/state pension systems to purchase City or MAC securities in the 1979-1982 period; without such legislation, the tax-exempt status of the pension systems would be threatened.

3. The above legislation would be contingent upon agreement by the local parties--city (not state) pension funds, the major banks and other (mutual savings) financial institutions--to absorb approximately \$2.5 billion in non-guaranteed long-term debt. The precise lending commitments of each of those parties would be unspecified and subject to negotiation.

In short, the Administration's proposed package has three components: (1) \$2 billion of long-term MAC or City sales to the public, backstopped by a federal "safety net"; (2) a \$2.5 billion private placement of non-guaranteed debt with the pensions and financial institutions; and (3) local financing of the City's seasonal (short-term) borrowing needs.

By contrast, the plan submitted by Mayor Koch recommended: (1) \$2.25 billion in 20-year federal guarantees to be provided on an "up front" rather than a stand-by basis; (2) \$2.9 billion in MAC sales to the public and relevant local parties; and (3) an extension of the seasonal lending program.

4. Administration support for this package would be conditioned upon the following additional steps by local parties:

-- The City must adopt a four year budget plan which by 1982 would produce a "true" balance. As you recall, the City's expense budget was balanced in FY 1978, but they project a deficit of \$470 million for 1979, which we believe will exceed \$600 million once wage settlements have been reached. Since the City also carries \$640 million in operating expenses in its capital budget, its true projected deficit for 1979 is probably \$1.3 billion.

-- The State of New York must provide \$200-\$350 million of annual budget assistance to the City in each of the next four years. This will be difficult in light of (1) Governor Carey's primary political vulnerability from suburbanites and upstate New Yorkers, and (2) our projections which indicate a sharp shrinkage in New York State's budget surplus in 1980 and 1981.

-- The State must enact a fiscal control body with powers no less extensive than those of the current Financial Control Board, which expires December 31, 1978. This is an absolute predicate for Congressional approval, but will meet strong opposition from union leaders.

-- The stand-by commitment by the pension funds to purchase up to \$2 billion in federally guaranteed MAC or City debt if the public markets do not absorb such offerings.

### Analysis

Treasury's package reflects the following assumptions regarding the City's financing needs, with which we agree:

-- The City must raise a minimum of \$4 billion of long-term capital over the next four years; it would be in the City's best interest to raise \$4.5--\$5 billion. Treasury's package provides for aggregate long-term borrowing of \$4.5 billion over four years, which will give us a slight cushion if the Congress reduces this figure. Senator Proxmire's opposition to continued federal assistance is based in part on his judgment that the City only needs \$2.7 billion in long-term funds.

-- The public markets and relevant local parties simply cannot absorb this magnitude of borrowing without federal assistance. Treasury originally contemplated a \$1.75 billion guarantee, but we urged them to raise that figure to the present \$2 billion. The present figure (1) is still under the City's recommended \$2.25 billion, and (2) will assist in obtaining the necessary non-guaranteed investments from the pensions and banks. In a properly structured package, we believe the City needs a minimum of \$1.5 billion guaranteed to avert bankruptcy. If Congress structures the package unwisely, even a \$2 billion stand-by guarantee might be inadequate to avoid bankruptcy.

-- If the appropriate long-term package is assembled, the City probably can meet its seasonal (short-term) borrowing needs without federal assistance.

-- In the post - 1982 period, the City assumes it will be able to meet its full borrowing needs through the public markets and without federal help. In fact, the City will have a borrowing need of \$1 billion annually after 1982, and it is unclear whether the City will be able to meet all its borrowing needs through the conventional municipal market.

Treasury would concur with these judgments.

On the other hand, the Secretary's attached memorandum fails to reflect serious risks which Treasury officials would acknowledge are implicit in their recommended plan.

The Treasury proposal is a compromise that attempts to bridge the gap between your commitment to meet the City's legitimate financing needs, as against political realities on the Hill, particularly in the Senate. The result is a proposal which will face an uphill Congressional fight, and which, even if enacted, may or may not be adequate to avert bankruptcy in the City. At Secretary Blumenthal's request, we have avoided "negotiations" with City representatives or even discussion of the specific components of a package. Bluntly, although we are hopeful that Treasury's proposal is sufficient to avert bankruptcy, we are not certain that it is, and neither is Treasury. In light of Congressional pressures for a minimal federal role, we support the Secretary's position as an acceptable starting point in negotiations. We should be tough in pushing our position with the City and local parties in the months ahead, but we should also recognize that it may be necessary to revamp the package later this spring if bankruptcy seems likely.

There are over a dozen contingencies which must fall into place if we are to succeed, but these are the major risks:

-- While not precisely a "risk," the greatest likelihood is that the guarantee will be invoked, and Congress will grasp this probability.

-- The greatest substantive risk is that the City will be unable to do its seasonal financing without federal help. Treasury would agree that they probably can do it, that it is untenable vis-a-vis the Congress to seek both long and short-term financing now, but that we may face a crisis if a seasonal package cannot be assembled locally. Treasury has agreed to amend its testimony to state that while we believe the seasonal package can and should be handled locally, we will re-evaluate this conclusion later if our present assessment proves inaccurate.

-- The second greatest risk, which we would characterize somewhat more seriously than Treasury, is that the city unions, which have serious legal fiduciary problems, may not purchase the large amount of non-guaranteed debt which is implicit in Treasury's package. Again, Congressional realities dictate that we push the unions on this, but we believe the unions will sharply criticize our proposal, and to an extent fairly, given their fiduciary responsibilities. Over the next six months we may be forced to agree to guarantee a substantial portion of all new pension debt purchases.

Treasury has agreed not to specify the financing commitments of the unions at this time. If Treasury were to specify now the level of financing we will seek from the unions, the unions would use this as a powerful negotiating tool to extract more generous settlements in next month's wage talks. For a variety of reasons, each of the parties would be required

to reject specific financing requirements at this time, thereby creating a climate of intransigence that would strengthen Congressional resistance to assisting the City.

-- Finally, you should understand the political climate and risks with respect to New York City. There is a certain amount of posturing on the part of the various local parties, and there is a degree of paranoia precipitated by the real risk of bankruptcy. On the other hand, while there is a strong feeling that Secretary Blumenthal has taken an increasingly sympathetic and "realistic" view of the City's financing prospects over the past month, there is also what we regard as a sincere belief among the most knowledgeable parties that the requirement that the unions absorb substantially more non-guaranteed debt may be fatal to a successful financing package.

This City perception of the substance of Blumenthal's proposal must be understood in the context of several political realities. The first is that our City financing package and the impending urban policy message will be the two litmus test issues against which this Administration will be judged in the City. The second is that President Ford's political difficulties in the City did not stem from his ultimate legislative proposals, but from his initial unsympathetic response. While we are clearly sympathetic and are moving in the right direction, the acid test will be whether a Democratic President proposed a plan which was adequate to meet the City's needs, regardless of Congressional pressures. If the Congress turns down the City, that is one issue; if the Administration is perceived not to have done enough, that perception would do lasting serious damage to the Administration.

The modifications we have achieved in Treasury's position will soften negative reactions in New York. These changes are important, since the proposal Secretary Blumenthal presented to City representatives last Friday had elicited very negative reactions. We can probably expect at best a cautiously optimistic reaction from key City parties with the new modified proposal. We would have preferred to have more time to work with Treasury on the form of its proposal, since we believe that a variant of Treasury's plan that would still be limited to a \$2 billion 15-year guarantee could be designed which would have reduced the exposure of the union pension funds.

At this point, we would make three recommendations:

-- You might call Governor Carey and Mayor Koch and indicate that you believe this is a good plan, that it poses difficult choices for the local parties but which will be



required by the Congress, and that Treasury and your staff will work closely with them in dealing with whatever problems may arise. An expression of your personal concern would be very helpful, and their strong public support is important: it will improve the political climate for us in New York, and it will assist us in securing the necessary financing commitments.

-- If Treasury has not already decided to do so, you might suggest that Treasury brief the editorial writers of the major New York papers on the plan. Treasury has agreed to "fuzz" many of the details in their proposal, and thus it can be characterized somewhat more favorably in an oral presentation to the press.

-- You might ask the Secretary to work closely with the White House as we move forward on this issue, which we do not believe will be resolved before the summer.



## OTHER STAFF COMMENTS

OMB: has no objection to Blumenthal's recommendations, but points out that NYC's financial plans have not included amounts for substantial wage increases that will be demanded by the unions this Spring. These settlements could make it difficult for the City to comply with Blumenthal's requirement for a four-year balanced budget plan.

CEA: concurs with Treasury's proposal. However:

- We should not assume that the availability of legislative authority to provide a guarantee will reassure public markets sufficiently to make use of the guarantee unnecessary. (The Federal government could not wait until a public long-term issue actually failed - and then agree to a guarantee - without creating financial difficulties and complicating the marketing of short-term issues.)
- Labor unions will try to use their bargaining power to get larger wage settlements in return for agreements to purchase non-guaranteed debt for union pension funds. The threat of denial of Federal assistance may help keep wage settlements down. But we must be careful not to be whipsawed by union demands for large wage settlements in return for pension fund commitments to purchase NYC securities.
- Treasury's proposal is unclear on whether Federal guarantees would apply just to pension fund acquisitions or to acquisitions by other lenders as well. Treasury would prefer to confine the guarantee to pension fund acquisitions if that is feasible. However, it may be difficult to get lending commitments for unguaranteed loans from other lenders if they are denied participation in the guarantee program.

Jody Powell: "This memo is late and contains inadequate information for any logical decision to be made on it. I had two press calls to verify this as the 'Treasury Plan for New York' before I even saw the memo."

(NOTE: The memo arrived at the White House early Tuesday afternoon.)

No comment received from Jack Watson.

ID 781082

THE WHITE HOUSE

WASHINGTON

DATE: 28 FEB 78

FOR ACTION: STU EIZENSTAT

HAMILTON JORDAN

JACK WATSON

JIM MCINTYRE

CHARLES SCHULTZE

INFO ONLY: THE VICE PRESIDENT

FRANK MOORE (LES FRANCIS)

JODY POWELL

SUBJECT: BLUMENTHAL MEMO RE NEW YORK CITY

+++++  
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +  
+ BY: +  
+++++

ACTION REQUESTED: IMMEDIATE TURNAROUND IS REQUESTED

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

*This memo is lck and contains  
inadequate information for any logical  
decision to be made on it. I had two  
press calls to verify this as the "Treasury  
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memo.*

ID 781082

THE WHITE HOUSE

WASHINGTON

DATE: 28 FEB 78

FOR ACTION: STU EIZENSTAT

HAMILTON JORDAN

JACK WATSON

JIM MCINTYRE

CHARLES SCHULTZE

*Marked*  
*by Granley => O.S.*

*Can't wait*

INFO ONLY: THE VICE PRESIDENT

FRANK MOORE (LES FRANCIS)

JODY POWELL

*Marked*

SUBJECT: BLUMENTHAL MEMO RE NEW YORK CITY

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

\*\*\*\*\*

ACTION REQUESTED: IMMEDIATE TURNAROUND IS REQUESTED

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

ID 781082

THE WHITE HOUSE

WASHINGTON

*Copies to: LG, SL, WN*

LOGGED

Date *2/28*

DATE: 28 FEB 78

FOR ACTION: STU EIZENSTAT

HAMILTON JORDAN

*Routing CLS/P6  
+ see above*

JACK WATSON

JIM MCINTYRE

CHARLES SCHULTZE

INFO ONLY: THE VICE PRESIDENT

FRANK MOORE (LES FRANCIS)

JODY POWELL

SUBJECT: BLUMENTHAL MEMO RE NEW YORK CITY

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED: IMMEDIATE TURNAROUND IS REQUESTED.

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

CHARLES L. SCHULTZE, CHAIRMAN  
LYLE E. GRAMLEY  
WILLIAM D. NORDHAUS

February 28, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Lyle E. Gramley *LEG*

Subject: Secretary Blumenthal's Memorandum of February 28  
regarding New York City.

The CEA basically concurs with the Treasury's proposal to provide stand-by Federal guarantees for a portion of the City's long-term financing. Continuing Federal assistance seems required, and providing it through a stand-by guarantee, rather than direct loans, goes in the direction of less Federal involvement. There are several points regarding the Treasury proposal, however, that you should keep in mind.

- (1) We should not be unduly optimistic that the availability of legislative authority to provide a guarantee will reassure public markets sufficiently to make use of the guarantee unnecessary. For example, the Federal government could not wait until a public long-term issue actually failed -- and then agree to a guarantee. Doing so would tend to signal financial difficulties and complicate marketings of short-term issues.
- (2) Labor negotiations this spring will pose a serious problem for New York City's budget. They will be occurring at a time when Congress is considering the issue of Federal assistance to the City. The labor unions will try to use their bargaining power to get larger wage settlements in return for agreements to purchase non-guaranteed debt for union pension funds. The threat of denial of Federal assistance may help to keep wage settlements down. But we must be careful not to be whipsawed by union demands for large wage settlements in return for pension fund commitments to purchase NYC securities.

- (3) The Treasury proposal is unclear on whether Federal guarantees would apply just to pension fund acquisitions or to acquisitions by other lenders as well. The Treasury would prefer to confine the guarantee to pension fund acquisitions if that is feasible. However, it may be difficult to get lending commitments for unguaranteed loans from other lenders if they are denied participation in the guarantee program.





EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

February 28, 1978

MEMORANDUM FOR RICK HUTCHESON

FROM:

DENNIS GREEN *DG*

SUBJECT:

Blumenthal Memo re New York City

We have no objections to the recommendations contained in Secretary Blumenthal's memo to the President regarding future Federal lending assistance for New York City.

If the Secretary and Deputy Secretary have not already briefed the President on the New York City fiscal problem, their negotiations, and their assistance proposals, we would strongly recommend such a session to supplement the Treasury memo. In addition, the President should be informed that the New York City financial plans have not included amounts for substantial wage increases that will be demanded by the unions this spring. These settlements could make it very difficult for the City to comply with the Secretary's requirement for a four year balanced budget plan.

cc to Dir